

MICHAEL WALTON
P.O. Box 751
San Anselmo, CA 94979
(415) 456-7920
In Propria Persona

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF MARIN

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JM
Late
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CHURCH OF SCIENTOLOGY)
INTERNATIONAL, a California)
not-for-profit religious)
corporation,)

CASE NO. 157 680

Plaintiff,)

vs.)

DEFENDANT MICHAEL WALTON'S)
SETTLEMENT CONFERENCE)
STATEMENT)

GERALD ARMSTRONG; MICHAEL)
WALTON; THE GERALD ARMSTRONG)
CORPORATION, a California for)
profit corporation; DOES 1)
through 100, inclusive,)

Defendants.)

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HUB LAW OFFICES

Date: September 19, 1994
Time: 9:00 A.M.
Dept: One
Trial: September 29, 1994

AND RELATED CROSS-ACTIONS)

1. STATEMENT OF FACTUAL AND LEGAL CONTENTIONS

1 The instant lawsuit is based upon claims by plaintiff, Church
2 if Scientology International ("CSI"), that it is a creditor as
3 defined by the California Uniform Fraudulent Transfer Act. CSI
4 alleges that it obtains creditor status as a result of certain acts
5 of defendant Gerald Armstrong ("ARMSTRONG"). CSI contends that in
6 July 1991 Armstrong began violating certain provisions of a
7 settlement agreement which CSI and Armstrong entered into in
8 December 1986. Armstrong claims that CSI began violating certain
9 aspects of the agreement shortly after it was executed. Armstrong

1 further contends that certain aspects of the agreement are not
2 enforceable because of public policy and other reasons. Armstrong
3 and CSI are litigating, inter alia, those issues in Los Angeles
4 County Superior Court Case No. BC 052 395. It is CSI's claims to
5 money damages in the Los Angeles case which allow it to claim
6 creditor status for purposes of the instant action.

7 In or about August 1990, Armstrong transferred his interest in
8 certain real and personal property to others and forgave all debts
9 then owed to him. CSI contends that Armstrong made those transfers
10 for the sole purpose of making himself judgment proof so that he
11 could then begin a plot to violate the terms of the agreement and
12 avoid payment to CSI if they were successful in obtaining a money
13 judgment against Armstrong at some later date. CSI further alleges
14 that Armstrong conspired with others, including this defendant
15 ("WALTON"), in formulating and executing the plot.

16 Armstrong admits transferring certain interests and forgiving
17 certain debts and argues that he was "guided" to divest himself of
18 worldly goods through divine intervention; that the divestiture was
19 the proper and logical sequence in the continuing development of
20 his life; and that he received more than equivalent value for the
21 transfers. Armstrong denies involvement in a conspiracy to defraud
22 any creditor, including CSI. Walton denies conspiring with
23 Armstrong or anyone else in an effort to defraud CSI or any other
24 of Armstrong's claimed creditors.

25 Walton denies that he received any of Armstrong's assets
26 without giving a reasonably equivalent value in exchange for said

1 asset.

2 CONSPIRACY CLAIMS

3 The essential elements of a cause of action for civil
4 conspiracy are:

- 5 1. Its formation and operation;
6 2. The wrongful act or acts done pursuant to the common
7 design; and
8 3. The damage resulting from such overt act or acts.

9 To establish liability on the basis of conspiracy, the facts must
10 show that something was done, which, without the conspiracy would
11 give rise to a cause of action, since the conspiracy itself does
12 not give rise to a cause of action unless a civil wrong has been
13 committed resulting in damage. Manor Investment Co. v F.W.
14 Woolworth, Inc. (1984, 1st Dist) 159 Cal App 3d 586, 206 Cal Rptr
15 37. CSI alleges that Armstrong, Walton and others agreed, and
16 knowingly and willfully conspired among themselves to hinder,
17 delay, and defraud CSI in the collection of its damages should it
18 eventually obtain an award for money damages and, further conspired
19 to render Armstrong unable to pay any damages which Armstrong
20 intended to incur by his future acts.

21 Walton and Armstrong deny the forming and operating a
22 conspiracy; that wrongful acts were done pursuant to a conspiracy
23 or for any other reason and further that no wrongful acts were done
24 whatsoever; it follows then that CSI could not claim to be damaged
25 by a conspiracy.

1 FRAUDULENT TRANSFER CLAIMS

2 CSI alleges that Armstrong fraudulently transferred real
3 property and assets to his coconspirator in violation of California
4 Civil Code Sections (a) & (b)(2).

5 Walton claims that he gave reasonably equivalent value in
6 exchange for any transfer that Armstrong made to him. Specifically,
7 CSI challenges Armstrong's transfer of Armstrong's interest in that
8 real property known as 707 Fawn Drive , Armstrong's relinquishment
9 of interest in a sum of money (approximately \$40,000) and
10 Armstrong's forgiveness of a debt that Walton owed of approximately
11 \$25,000.

12 In the Spring of 1990 Walton and Armstrong entered into an
13 agreement whereby Walton would terminate his law practice in Playa
14 del Rey, California, give up his residence in Playa del Rey and
15 relocate to 707 Fawn Drive in Marin County; Walton would commit to
16 a one year time period in which he would live at the Fawn Drive
17 residence. Armstrong and Walton would be co-owners of the property
18 and would hold their respective interests as tenants in common.
19 Both Walton and Armstrong would be "borrowers" on the mortgage loan
20 and both would execute a deed of trust in favor of the mortgage
21 lender. Armstrong would provide the down payment for the residence
22 and would establish a money fund which would be an amount
23 calculated to cover the mortgage payments, insurance payments,
24 taxes and upkeep of the residence for one year (approximately
25 \$40,000).

26 Walton and Armstrong further agreed that during that year they

1 would investigate the possibility of developing certain creative
2 and artistic ideas that Armstrong had already identified and any
3 other creative or artistic projects that may arise.

4 In addition, Walton was Armstrong's legal counsel in
5 Scientology's appeal from a Los Angeles Superior Court decision in
6 Armstrong's favor. Walton and Armstrong believed that Armstrong
7 could provide much more effective assistance to Walton in
8 responding to the appeal if both parties were in the same location.
9 Considerable document review was necessary in preparation and
10 Armstrong was the main source of explaining the chronology of
11 events that covered more than a dozen years and the complex
12 technical language and structure of Scientology. Armstrong and
13 Walton agreed that legal fees charged by Walton to Armstrong for
14 that representation would be charged against the balance of a loan
15 Armstrong had made to Walton some years before in the amount of
16 \$25,000.

17 Pursuant to this agreement, Walton and Armstrong purchased the
18 Fawn Drive residence in May 1990 for the sum of \$530,000. They
19 obtained a loan for the mortgage in the sum of \$397,500. They set
20 up a joint checking account to handle the "house account fund"
21 which was approximately \$40,000.

22 Walton and Armstrong continued to work on the appeal matter
23 and on July 9, 1990, filed Armstrong's Respondents Brief. The Court
24 of Appeal affirmed the lower court's decision. Walton and Armstrong
25 investigated the potential commercial and artistic impact of a
26 number of Armstrong's projects or would be projects. None were ever

1 brought to market in a commercially viable way.

2 In August 1990, Armstrong forgave the loan that he made to
3 Walton years before. As a result of the forgiveness of the loan,
4 Walton never "billed" Armstrong for the legal services rendered in
5 relation to the appeal.

6 Also in August 1990, Armstrong turned over full responsibility
7 for managing the house fund to Walton indicating that he had no
8 intention of handling it in the future. Walton did exercise sole
9 responsibility for managing the house fund and paid expenses
10 related to the residence as they came due as per the original
11 agreement.

12 Finally, in August 1990, Armstrong deeded his interest in Fawn
13 Drive to Walton. While Walton did not pay Armstrong directly any
14 money for the transfer, Walton agreed to assume full responsibility
15 for the \$397,500 mortgage loan and to be fully responsible for all
16 future taxes, upkeep, repairs, insurance and any other cost related
17 to the property. Several months later, Walton refinanced the
18 mortgage loan dropping Armstrong as a borrower and since August
19 1990, Walton and his family have been fully responsible for
20 maintaining and improving the property. Walton encouraged Armstrong
21 to continue to live at the residence; however, Armstrong moved out
22 in August 1991.

23 SETTLEMENT PARTICULARS

24 There have been no demands made to this defendant. There have
25 been no settlement discussions which involved this defendant. Other
26 than what may be termed an ongoing religious war between CSI and

1 Armstrong, no other special barriers to settlement are know to this
2 defendant.

3 Dated: September 2, 1994

4 _____
5 Michael Walton

PROOF OF SERVICE BY MAIL
STATE OF CALIFORNIA, COUNTY OF MARIN

I am a resident of the county aforesaid; I am over the age of eighteen years and not a party to the within entitled action; my business address is 700 Larkspur Landing Circle, Suite 120, Larkspur, California 94939.

On September 6, 1994, I served the within DEFENDANT MICHAEL WALTON'S SETTLEMENT CONFERENCE STATEMENT on the interested parties by placing true copies thereof enclosed in sealed envelopes with postage thereon fully prepaid, in the United States mail at Larkspur, California addressed as follows:

Laurie J. Bartilson
Bowles & Moxon
62 55 Sunset Blvd., Suite 2000
Los Angeles, CA 90028

Wilson, Ryan & Campilongo
235 Montgomery Street, Suite 450
San Francisco, CA 94104

Ford Greene, Esq.
711 Sir Francis Drake
San Anselmo, CA 94960

Executed on September 6, 1994 at Larkspur, California.

I declare under penalty of perjury that the foregoing is true and correct.

MICHAEL WALTON
P.O. Box 751
San Anselmo, CA 94979
(415) 456-7920
In Propria Persona

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62 55 Sunset Blvd., Suite 2000
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Wilson, Ryan & Campilongo
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Ford Greene, Esq.
711 Sir Francis Drake
San Anselmo, CA 94960

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